

Money: Kids and Cash

GRADE LEVEL: 3-5

Financial and Economic Concept: Banking and Financial Services

CREDIT:

Summer Productions, Inc.

LENGTH OF LESSON: One class period

OBJECTIVES:

Students will understand the following:

1. A bank pays interest to people who put money in it.
2. A bank charges interest to people who borrow money from it.
3. A bank charges higher interest to borrowers than it pays to savers.

MATERIALS:

For this lesson, you will need:
paper and pencils

PROCEDURE:

1. Ask students what a bank is and why people put some of their money in banks. Elicit from students that two reasons are
 - to protect the money from thieves and
 - to make more money by getting interest from the bank.
2. It's important for students to understand what *interest* means. Define *interest* as “a fee paid for borrowing money.” Explain that when a person puts his or her money in the bank, the bank is, in a sense, borrowing the person's money. The bank uses the person's money by lending it to other people or companies. The bank *charges* interest to the people it lends money to and *pays* interest to those who put money in the bank. Show students an example such as the following:
 - John puts \$100 in the bank for a year.
 - During that year, the bank lends John's \$100 to Mary. At the end of the year, Mary gives the bank the \$100 *plus* the interest she must pay, so she gives the bank \$108.
 - At the end of the year, John takes out the \$100 he put in earlier *plus* the interest it earned, so he gets \$105.

Ask students, "How much money did the bank make on John's \$100 during the year?" Or ask, "Why does the bank charge Mary \$8 but pay John only \$5?"

3. Now explain that interest is expressed as a percent. The bank says to John, "If you give us your money for a year, we will give you 5 percent interest at the end of the year. So you will earn \$5 on your \$100." The bank says to Mary, "If you want us to give you money for one year, you will have to give us 8 percent interest at the end of the year. So you will have to pay us back \$108."

4. Make sure students understand why the bank needs to make money.

5. Ask students to assume that they each earned \$100 for a job they did. Tell them to figure out in which bank to put their money for at least one year. Here are the details:

- Bank of Elmont pays 5 percent at the end of the year to someone who starts a new account. Bank of Elmont is in walking distance.
- Bank of Honeyville pays $5\frac{1}{2}$ percent at the end of the year to someone who starts a new account. It will cost 50 cents to take the bus each way to make the deposit in Honeyville and another 50 cents each way at the end of the year to take out the money and interest.
- Bank of Lextown pays $4\frac{1}{2}$ percent at the end of the year to someone who starts a new account. In addition, Bank of Lextown will give you a mousepad that it says is worth \$2. Bank of Lextown is also in walking distance.

6. Ask students to explain how to compare the three banks. They should come up with the following reasoning:

- If I put my money in Bank of Elmont, at the end of the year, I will have \$105.
- If I put my money in Bank of Honeyville, at the end of the year, I will have \$105.50, but I will have spent \$2 in bus fare, so I will have only \$103.50.
- If I put my money in Bank of Lextown, at the end of the year, I will have \$104.50 and a mousepad worth \$2.00.

7. Ask students to decide which bank they would choose based on the preceding analysis. The class may split between students who choose Elmont and students who choose Lextown (the choice perhaps depending on whether or not a student needs a mousepad).

8. Give students the following problem to work out in writing:

- Bank of Midtown will pay 4 percent interest and has a setup that allows you to check on your account by phone or online. The bank is in walking distance.

- Bank of Downtown will pay 5 percent interest on a new account. This bank does not yet have a system that allows you to check on your account by phone or online. The bank is in walking distance.

- Bank of Uptown will pay you 5 percent interest. To deposit your money there, you will use the U.S. Mail; to take your money out at the end of the year, you will spend \$1 in roundtrip bus fare.

In writing, tell which bank you will put your money in, and explain your reasoning. Consider how much money you will wind up making. Consider other factors such as convenience.

ADAPTATIONS:

Limit the activity to showing students that the bank charges borrowers more than it pays lenders. Explain why. Do not introduce the concept of percentage.

DISCUSSION QUESTIONS:

EVALUATION:

You may evaluate your students' responses using the following three-point rubric:

- **Three points:** student's arithmetic is accurate; student shows that he or she has considered numbers as well as other factors such as services and convenience; student's writing is error-free

- **Two points:** student's arithmetic is accurate; student does not acknowledge other factors such as services and convenience; student's writing has a few errors

- **One point:** student does not show grasp of the necessary arithmetic; student does not acknowledge factors such as services and convenience; student's writing has many errors

EXTENSION:

Interviewing Bank Customers

Ask students to interview their parents or other adults and report back to the class on how their parents or other adults decide which bank(s) to use and why.

Paper and Coins from around the World

Bring to class examples of paper money and coins of various denominations from foreign countries. Help students make a chart that includes the name of each currency and what each currency is worth in American dollars or cents.

SUGGESTED READINGS:

The Go-Around Dollar

B. Adams, 1992.

Every Kid's Guide to Making and Managing Money

J. Berry, 1991.

WEB LINKS:

What's New About Your Money

Visit the U.S. Treasury and find out what changes are being made to U.S. currency to help guard against counterfeiting.

<http://www.ustreas.gov/treasury/whatsnew/newcur/>

The United States Mint

Visit this Department of Treasury and the U.S. Mint website to find out more about the Mint. Links to information on its history, the production of a coin, and circulating coins are also included.

<http://www.ustreas.gov/treasury/bureaus/mint/mint.html>

Ben & Jerry's Home Page

For your students who are interested in learning more about Ben and Jerry's ice cream business, have them visit the Ben & Jerry's home page. Here students will find more information on the company, scoop shop lists and the "flavor graveyard."

<http://www.benjerry.com/indexg.html>

VOCABULARY:

auction

A sale where items are sold to the person who bids the greatest amount for the item.

Context:

At the Tokyo fish market, restaurant wholesalers purchase fish at an auction.

wampum

Small beads made from polished clam shells threaded on a string or made into a belt.

Context:

The darker the wampum, the more valuable it was in trade.

denomination

A specific unit of value in a monetary system.

Context:

At the store, purchases can be made with any denomination of coins, as long as they add up to the right amount.

die

A device used to cut out, cast, pattern or stamp articles.

Context:

A die is put into the coin press to stamp the design on a coin.

counterfeit

To forge or make a copy of something.

Context:

Engravers create intricate portraits, signatures, and numbers so that it's as difficult as possible to counterfeit money.

interest

Money charged for a loan.

Context:

Banks make money by charging interest on all loans.

deposit

Something that is put away to be kept safe.

Context:

Tellers help with bank transactions, such as making a deposit or withdrawal.

withdrawals

Something that is taken away or removed.

Context:

Tellers help with bank transactions, such as making deposits or withdrawals.

reserve

Something that is set aside for future use, such as savings or resources.

Context:

By law, every bank in the country must keep some of its money on reserve.

Standard:

Understands basic features of market structures and exchanges.

Benchmarks:

Understands that money reduces the problems barter faces because money is easy to divide, carry, and store.

Knows that competitive markets are those with many buyers and sellers, where no one person or firm controls prices or the number of products for sale.

Knows that banks play a key role in providing currency and other forms of money to consumers, and that banks serve as intermediaries between savers and borrowers.

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